Intermediate Accounting 19th edition Kieso Test Bank

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CHAPTER 1

THE ENVIRONMENT AND CONCEPTUAL FRAMEWORK OF FINANCIAL REPORTING

IFRS questions are available at the end of this chapter.

TRUE-FALSE

1. Financial statements are the principal means through which a company communicates its financial information to those outside it.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

2. Users of financial reports of a company use the information provided by these reports to make capital allocation decisions.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

3. An effective process of capital allocation provides an efficient market for buying and selling securities and obtaining and granting credit.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

4. Investors are interested in financial reporting because it provides information that is useful for making decisions.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

5. Users of financial accounting statements have both coinciding and conflicting needs for information of various types.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

6. Although the FASB has developed a conceptual framework, no Statements of Financial Accounting Concepts have been issued to date.

Ans: F, LO: 1, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

7. The passage of a new FASB Accounting Standards Update requires the support of five of the seven board members.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

8. Statements of Financial Accounting Concepts set forth fundamental objectives and concepts that are used by the FASB in developing standards of financial accounting and reporting.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

9. The FASB's Codification creates a new set of GAAP.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

10. The objective of financial reporting is to report the plans made by a company to improve the productivity of its employees.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

11. A soundly developed conceptual framework enables the FASB to issue more useful and consistent pronouncements over time.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

12. A conceptual framework is a coherent system of concepts that flow from an objective.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

13. The foundation of the conceptual framework identifies the recognition, measurement, and disclosure concepts used in establishing accounting standards.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

14. The objective of financial reporting serves as the foundation of the conceptual framework.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

15. Users of financial statements are assumed to need **no** knowledge of business and financial accounting matters to understand the information contained in financial statements.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

16. Relevance and faithful representation are the two fundamental qualities that make accounting information useful for decision-making.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

17. The idea of consistency does **not** mean that companies cannot switch from one accounting method to another.

Ans: T, LO: 2, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

18. Timeliness and neutrality are two ingredients of relevance.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

19. Verifiability and predictive value are two ingredients of faithful representation.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

20. Revenues, gains, and distributions to owners all increase equity.

Ans: F, LO: 2, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

21. Comprehensive income includes all changes in equity during a period **except** those resulting from investments by owners and distributions to owners.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

22. The conceptual framework provides the qualitative characteristics that make accounting information useful and the elements of financial statements.

Ans: T, LO: 2, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

23. Accounting standards are now less likely to require the reporting or disclosure of fair value information.

Ans: F, LO: 3, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

24. The historical cost principle would be of limited usefulness if **not** for the going concern assumption.

Ans: T, LO: 3, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

25. The economic entity assumption means that economic activity can be identified with a particular legal entity.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

26. The expense recognition principle states that debits must equal credits in each transaction.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

27. Revenues are recognized in the accounting period in which the performance obligation is satisfied.

Ans: T, LO: 3 Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

28. Supplementary information may include details or amounts that present a different perspective from that adopted in the financial statements.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

29. To justify requiring a particular measurement or disclosure, the benefits to be derived from it must equal the costs associated with it.

Ans: F, LO: 3, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

30. In cost-benefit analysis, costs are generally more difficult to quantify than are benefits.

Ans: F, LO: 3, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

31. GAAP is a product of careful logic or empirical findings and is **not** influenced by political action.

Ans: F, LO: 4 Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

32. The Public Company Accounting Oversight Board has oversight and enforcement authority and establishes auditing, quality control, and independence standards and rules.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

33. The expectations gap is due to the difference between what the public thinks accountants should do and what accountants think they can do.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

34. Traditional financial reports do **not** provide any information about a company's soft assets (intangibles).

Ans: F, LO: 4, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

35. Ethical issues in financial accounting are governed by the AICPA.

Ans: F, LO: 4, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Prof. Demeanor, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

MULTIPLE CHOICE—Conceptual

36. General-purpose financial statements are the product of
    a. financial accounting.
    b. managerial accounting.
    c. both financial and managerial accounting.
    d. neither financial nor managerial accounting.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

37. Which of the following is **not** an external user of financial reports?
    a. Creditors
    b. Government agencies
    c. Unions
    d. Management

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

38. The financial statements most frequently provided include all of the following **except** the
    a. balance sheet.
    b. income statement.
    c. statement of cash flows.
    d. trial balance.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

39. All the following are ways in which accounting information is used by financial statement users **except** to
    a. buy, sell, hold equity, and debt instruments.
    b. decide whether to invest in the company.
    c. evaluate borrowing capacity to determine the extent of a loan to grant.
    d. plan and control a company's operations.

Ans: D, LO: 1, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

40. How does accounting help the capital allocation process allocate investment capital?
    a. By providing relevant and reliable information
    b. By encouraging innovation
    c. By promoting productivity
    d. By providing relevant and reliable information and by encouraging innovation

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

41. Which of the following is **not** related to an effective capital allocation?
    a. Promoting productivity
    b. Encouraging innovation
    c. Providing an efficient market for buying and selling securities
    d. Providing relevant and reliable information and encouraging innovation

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

42. What is the objective of financial reporting?
    a. Provide information that is useful to management in making decisions
    b. Provide information that portrays nonfinancial transactions
    c. Provide information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors
    d. Provide information that excludes claims to the resources

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

43. Primary users for general-purpose financial statements include each of the following **except**
    a. creditors.
    b. suppliers.
    c. investors.
    d. employees.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

44. Which of the following is of interest to investors' decision-making?
    a. Assessing the company's ability to generate net cash inflows
    b. Comparing income and assets of different companies
    c. Both assessing the company's ability to generate net cash inflows and comparing income and assets of different companies
    d. Assessing the company's ability to collect debts

Ans: C, LO: 1, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

45. Which of the following is a requirement for an accounting principle to be considered "generally accepted"?
   a. An authoritative accounting rule-making body has established it in an official pronouncement.
   b. The principle has been accepted as appropriate because of its universal application.
   c. An authoritative accounting rule-making body has established it or it has been accepted because of its universal application.
   d. Each company develops its own standards.

Ans: C, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

46. A common set of accounting standards and procedures is called
   a. financial accounting standards.
   b. generally accepted accounting principles.
   c. objectives of financial reporting.
   d. statements of financial accounting concepts.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

47. Which of the following is a limitation of "general-purpose financial statements"?
   a. General purpose financial statements may not be the most informative for a specific enterprise.
   b. General purpose financial statements are not comparable.
   c. General purpose financial statements do not fairly present a company's financial operations.
   d. General purpose financial statements provide financial reporting information to a wide variety of users.

Ans: A, LO: 1, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

48. What is the relationship between the Securities and Exchange Commission and accounting standard setting in the United States?
   a. The SEC requires all companies listed on an exchange to submit their financial statements to the SEC.
   b. The SEC coordinates with the AICPA in establishing accounting standards.
   c. The SEC has a mandate to establish accounting standards for enterprises under its jurisdiction.
   d. The SEC reviews financial statements for compliance.

Ans: C, LO: 1, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

49. What is **not** due process in the context of standard setting at the FASB?
   a. The FASB operates in full view of the public.
   b. Public hearings are held on proposed accounting standards.
   c. Interested parties can make their views known.
   d. No public hearings are held on proposed accounting standards.

Ans: D, LO: 1, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

50. A characteristic of generally accepted accounting principles includes
    a. a common set of standards and procedures.
    b. standards and principles are based on federal statutes.
    c. acceptance requires an affirmative vote of Certified Public Accountants.
    d. practices that become accepted for at least a year by all industry members.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: Knowledge

51. Characteristics of generally accepted accounting principles include all of the following **except**
    a. authoritative accounting that the rule-making body has established as a principle of reporting.
    b. standards are considered useful by the profession.
    c. each principle is approved by the SEC.
    d. practice has become universally practiced over time.

Ans: C, LO: 1, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

52. Why was it believed that accounting standards that were issued by the Financial Accounting Standards Board would carry more weight than standards previously issued?
    a. The FASB board had a smaller membership.
    b. The FASB board members were well-paid.
    c. The FASB board members were CPAs.
    d. The FASB follows due process.

Ans: D, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

53. The passage of a new FASB Accounting Standards Update requires the support of
    a. seven Board members.
    b. three Board members.
    c. four Board members.
    d. five Board members.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

54. Each of the following is true of the Securities and Exchange Commission **except** that
    a. it is a federal agency.
    b. the SEC's involvement in the development of accounting standards varies.
    c. the FASB relies on the SEC to develop accounting standards.
    d. the SEC requires registrants to adhere to GAAP.

Ans: C, LO: 1, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

55. The body that has the power to prescribe the accounting practices and standards to be employed by companies that fall under its jurisdiction is the
    a. FASB.
    b. AICPA.
    c. SEC.
    d. APB.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

56. Most companies that issue securities to the public or are listed on a stock exchange are required to submit their financial statements to the
   a. AICPA.
   b. APB
   c. FASB.
   d. SEC.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

57. Which of the following is **true** of the Financial Accounting Standards Board?
   a. It has issued a series of pronouncements entitled Auditing Standards Updates.
   b. It exercises oversight of the Financial Accounting Foundation.
   c. It is the arm of the Securities and Exchange Commission responsible for setting financial accounting standards.
   d. The members are appointed by the Financial Accounting Foundation.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

58. The Financial Accounting Foundation
   a. oversees the operations of the FASB.
   b. oversees the operations of the AICPA.
   c. provides information to interested parties on financial reporting issues.
   d. works with the Financial Accounting Standards Advisory Council to provide information to interested parties on financial reporting issues.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

59. The Financial Accounting Standards Board employs a "due process" system which
   a. is an efficient system for collecting dues from members.
   b. enables interested parties to express their views on issues under consideration.
   c. identifies the accounting issues that are the most important.
   d. requires that all accountants must receive a copy of financial standards.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

60. The FASB has issued each of the following pronouncements except
   a. Accounting Standards Updates.
   b. Financial Accounting Concepts.
   c. Accounting Research Bulletins.
   d. Accounting Research Bulletins and Accounting Standards Updates. .

Ans: C, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

61. Which of the following organizations has **not** been instrumental in the development of financial accounting standards in the United States?
   a. AICPA
   b. FASB
   c. IASB
   d. SEC

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

62. The purpose of Statements of Financial Accounting Concepts is to
   a. establish GAAP.
   b. modify or extend an existing FASB Accounting Standards Update.
   c. provide a conceptual framework for the development of financial accounting standards.
   d. determine the need for FASB involvement in an emerging issue.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

63. Members of the Financial Accounting Standards Board are
   a. employed by the American Institute of Certified Public Accountants (AICPA).
   b. part-time employees.
   c. required to hold a CPA certificate.
   d. independent of any other organization.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

64. The following are parts of the "due process" system used by the FASB in the evolution of a typical FASB Accounting Standards Update:

1. Exposure Draft
2. FASB Accounting Standards Update
3. Preliminary Views

The chronological order in which these items are released is as follows:
   a. 1, 2, 3.
   b. 1, 3, 2.
   c. 2, 3, 1.
   d. 3, 1, 2.

Ans: D, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

65. Which of the following is **not** true of generally accepted accounting principles?
   a. GAAP includes detailed practices and procedures as well as broad guidelines of general application.
   b. GAAP is influenced by pronouncements of the SEC.
   c. GAAP changes over time as the nature of the business environment changes.
   d. GAAP lack substantial authoritative support.

Ans: D, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

66. The most significant current source of generally accepted accounting principles is the
   a. AICPA.
   b. SEC.
   c. APB.
   d. FASB.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

67. The purpose of the International Accounting Standards Board is to
    a. issue enforceable standards which regulate the financial accounting and reporting of multinational corporations.
    b. develop a uniform currency in which the financial transactions of companies throughout the world would be measured.
    c. promote uniform accounting standards among countries of the world.
    d. arbitrate accounting disputes between auditors and international companies.

Ans: C, LO: 1, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: IFRS

68. What would be an advantage of having all countries adopt and follow the same accounting standards?
    a. Relevance
    b. Materiality
    c. Consistency
    d. Understandability

Ans: D, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: IFRS

69. Generally accepted accounting principles
    a. are fundamental truths or axioms that can be derived from laws of nature.
    b. derive their authority from legal court proceedings.
    c. derive their credibility and authority from general recognition and acceptance by the accounting profession.
    d. are specified in detail in the FASB conceptual framework.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

70. The objective of general-purpose financial reporting is to provide financial information about a reporting entity to each of the following **except**
    a. potential equity investors.
    b. potential lenders.
    c. present investors.
    d. All of these answers are correct.

Ans: D, LO: 1, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

71. In addition to research and support of its staff, the FASB relies on the expertise of
    a. a committee of the SEC.
    b. various task force groups.
    c. the Accounting Board of Governors.
    d. accounting experts from other countries.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

72. The Financial Accounting Standards Advisory Council (FASAC)
    a. consults with the FASB and helps appoint task force members.
    b. is the source of authoritative GAAP pronouncements.
    c. makes pronouncements that sometimes contradict GAAP.
    d. is a political group formed to lobby Congress in the U.S.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

73. The information provided by financial reporting pertains to
    a. individual business enterprises, rather than to industries or an economy as a whole or members of society as consumers.
    b. business industries, rather than to individual enterprises or an economy as a whole or members of society as consumers.
    c. individual business enterprises, industries, and an economy as a whole, rather than to members of society as consumers.
    d. an economy as a whole and to members of society as consumers, rather than to individual enterprises or industries.

Ans: A, LO: 1, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

74. Which of the following represents a form of communication through financial reporting but **not** through financial statements?
    a. Balance sheet
    b. President's letter
    c. Income statement
    d. Notes to financial statements

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

75. The underlying theme of the conceptual framework is
    a. decision-usefulness.
    b. understandability.
    c. faithful representation.
    d. comparability.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

76. The pervasive criterion by which accounting information can be judged is that of
    a. decision-usefulness.
    b. freedom from bias.
    c. timeliness.
    d. comparability.

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

77. The objective of general-purpose financial reporting is
    a. to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions about providing resources to the entity.
    b. to provide companies with the option to select information that favors one set of interested parties over another.
    c. to provide users with financial information that implies total freedom from error.
    d. to provide a metric for financial information used to determine when the boundary between two or more entities should be disregarded and the entities considered to be a licensing arrangement.

Ans: A, LO: 2, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

78. If the LIFO inventory method was used last period, it should be used for the current and subsequent periods because of
    a. consistency.
    b. materiality.
    c. timeliness.
    d. verifiability.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

79. Which of the following is a characteristic describing the fundamental quality of relevance?
    a. Predictive value
    b. Neutrality
    c. Verifiability
    d. Understandability

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

80. Which of the following is a fundamental quality of useful accounting information?
    a. Comparability
    b. Relevance
    c. Neutrality
    d. Materiality

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

81. Which of the following is a fundamental quality of useful accounting information?
    a. Materiality
    b. Comparability
    c. Faithful representation
    d. Consistency

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

82. What is meant by comparability when discussing financial accounting information?
    a. Information has predictive or confirmatory value.
    b. Information is reasonably free from error.
    c. Information is measured and reported in a similar manner across companies.
    d. Information is timely.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

83. What is meant by consistency when discussing financial accounting information?
    a. Information presented by a company applies the same accounting treatment to similar events, from period to period.
    b. Information is timely.
    c. Information is classified, characterized, and presented clearly and concisely.
    d. Information is verifiable.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

84. Which of the following is an ingredient of relevance?
    a. Completeness
    b. Neutrality
    c. Timeliness
    d. Materiality

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

85. Which of the following is an ingredient of faithful representation?
    a. Predictive value
    b. Materiality
    c. Neutrality
    d. Confirmatory value

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

86. Changing the method of inventory valuation should be disclosed in the financial statements because of which qualitative characteristic of accounting information?
    a. Consistency
    b. Verifiability
    c. Timeliness
    d. Comparability

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

87. A company issuing its annual financial reports within one month of the end of the year is an example of which enhancing quality of accounting information?
    a. Comparability
    b. Timeliness
    c. Understandability
    d. Verifiability

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

88. What is the quality which means that the information is capable of making a difference in a decision?
    a. Understandability
    b. Materiality
    c. Timeliness
    d. Relevance

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

89. Neutrality is an ingredient of which fundamental quality of information?
    a. Faithful representation
    b. Comparability
    c. Relevance
    d. Understandability

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

90. If the FIFO inventory method was used last period, it should be used for the current and following periods because of
    a. relevance.
    b. neutrality.
    c. understandability.
    d. consistency.

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

91. The two fundamental qualities that make accounting information useful for decision making are
    a. comparability and timeliness.
    b. materiality and neutrality.
    c. relevance and faithful representation.
    d. faithful representation and comparability.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

92. Accounting information is considered to be relevant when it
    a. can be depended on to represent the economic conditions and events that it is intended to represent.
    b. is capable of making a difference in a decision.
    c. is understandable by reasonably informed users of accounting information.
    d. is verifiable and neutral.

Ans: B, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

93. The quality of information that means the numbers and descriptions match what actually existed or happened is
    a. relevance.
    b. faithful representation.
    c. completeness.
    d. neutrality.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: Knowledge

94. Which of the following does **not** relate to relevance?
   a. Materiality
   b. Predictive value
   c. Confirmatory value
   d. Completeness

Ans: D, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

95. Materiality is an ingredient of the fundamental quality(ies) of

	Relevance	Faithful Representation
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

Ans: C, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

96. Completeness is an ingredient of the fundamental quality(ies) of

	Relevance	Faithful Representation
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

Ans: D, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

97. Neutrality is an ingredient of the fundamental quality(ies) of

	Relevance	Faithful Representation
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

Ans: B, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

98. Neutrality means that information
   a. provides benefits that are at least equal to the costs of its preparation.
   b. can be compared with similar information about an enterprise at other points in time.
   c. would have no impact on a decision-maker.
   d. does not favor one set of interested parties over another.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

99. The characteristic that is demonstrated when a high degree of consensus can be secured among independent measurers using the same methods is
   a. relevance.
   b. faithful representation.
   c. verifiability.
   d. neutrality.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

100. Predictive value is an ingredient of the fundamental quality(ies) of

	Relevance	Faithful Representation
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

Ans: A, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

101. Free from error is an ingredient of the fundamental quality of

	Faithful Representation	Relevance
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

Ans: C, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

102. Financial information demonstrates consistency when
   a. firms in the same industry use different accounting methods to account for the same type of transaction.
   b. a company changes its estimate of the salvage value of a fixed asset.
   c. a company fails to adjust its financial statements for changes in the value of the measuring unit.
   d. None of these answer choices is correct.

Ans: D, LO: 2, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

103. Financial information exhibits the characteristic of consistency when
   a. expenses are reported as charges against revenue in the period in which they are paid.
   b. a company applies the same accounting treatment to similar events, from period to period.
   c. unusual gains and losses are not included in the income statement.
   d. accounting procedures are adopted which give a consistent rate of net income.

Ans: B, LO: 2, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

104. Information about different companies and different periods of the same company can be prepared and presented in a similar manner. Comparability and consistency are related to which of these objectives?

	Comparability	Consistency
a.	Companies	Companies
b.	Companies	Periods
c.	Periods	Companies
d.	Periods	Periods

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

105. When information about two different enterprises has been prepared and presented in a similar manner, the information exhibits the characteristic of
   a. relevance.
   b. faithful representation.
   c. consistency.
   d. comparability.

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

106. The elements of financial statements include investments by owners. These are increases in the equity of an entity resulting from owners'
   a. transfers of assets to the entity.
   b. rendering services to the entity.
   c. satisfaction of liabilities of the entity.
   d. All of these answer choices are correct.

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

107. In classifying the elements of financial statements, the primary distinction between revenues and gains is
   a. the materiality of the amounts involved.
   b. the likelihood that the transactions involved will recur in the future.
   c. the nature of the activities that gave rise to the transactions involved.
   d. the costs versus the benefits of the alternative methods of disclosing the transactions involved.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

108. A decrease in net assets arising from transactions and other events and circumstances affecting an entity except those that result from expense or distribution to owners is called a(n)
   a. capital expenditure.
   b. cost.
   c. loss.
   d. expense.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

109. One of the elements of financial statements is comprehensive income. As described in *Statement of Financial Accounting Concepts No. 6,* "Elements of Financial Statements," comprehensive income is equal to
   a. revenues minus expenses plus gains minus losses.
   b. revenues minus expenses plus gains minus losses plus investments by owners minus distributions to owners.
   c. revenues minus expenses plus gains minus losses plus investments by owners minus distributions to owners plus assets minus liabilities.
   d. None of these answer choices is correct.

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

110. Which of the following elements of financial statements is **not** a component of comprehensive income?
a. Revenues
b. Distributions to owners
c. Losses
d. Expenses

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

111. The calculation of comprehensive income includes which of the following?

	Operating Income	Distributions to Owners
a.	Yes	Yes
b.	No	No
c.	No	Yes
d.	Yes	No

Ans: D, LO: 2, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

112. According to the FASB conceptual framework, which of the following elements describes transactions or events that affect a company during a period of time?
a. Assets
b. Expenses
c. Equity
d. Liabilities

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

113. According to the FASB Conceptual Framework, the elements—assets, liabilities, and equity—describe amounts of resources and claims to resources at/during a

	Moment in Time	Period of Time
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

114. Which of the following is **not** a basic element of financial statements?
a. Assets
b. Balance sheet
c. Losses
d. Revenue

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

115. Which of the following basic elements of financial statements is associated more closely with the balance sheet than the income statement?
   a. Equity
   b. Revenue
   c. Gains
   d. Expenses

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

116. Which basic element of the financial statements is affected by the issuance of common stock for cash?
   a. Gains
   b. Losses
   c. Liabilities
   d. Equity

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

117. Which of these basic elements of financial statements arises from increases in equity (net assets) from transactions and other events and circumstances affecting an entity except those that result from delivering or producing goods, rendering services, or carrying out other activities?
   a. Assets
   b. Liabilities
   c. Gains
   d. Expenses

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

118. Materiality is used in all of the following situations of providing financial information, **except**
   a. where an amount is of relatively large size and importance.
   b. where it would impact the judgment of a reasonable person.
   c. where it would not make a difference in the actions of a decision-maker.
   d. where the omission of the information would result in bias.

Ans: C, LO: 2, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

119. Expensing the cost of copy paper when the paper is acquired is an example
   a. materiality.
   b. expense recognition.
   c. relevance.
   d. industry practices.

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

120. Expensing the cost of a wastebasket with an estimated useful life of 10 years when purchased is an example of the application of the
   a. consistency characteristic.
   b. expense recognition principle.
   c. materiality ingredient.
   d. historical cost principle.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

121. Which of the following statements about materiality is correct?
   a. An item must make a difference in decision making or it need not be disclosed.
   b. Materiality is a matter of relative size or importance.
   c. An item is material if its inclusion or omission would influence or change the judgment of a reasonable person.
   d. All of these answers are correct.

Ans: D, LO: 2, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

122. Which of the following is **not** a basic assumption underlying the financial accounting structure?
   a. Economic entity assumption
   b. Going concern assumption
   c. Periodicity assumption
   d. Historical cost assumption

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

123. Which basic assumption is illustrated when a firm reports financial results on an annual basis?
   a. Economic entity assumption
   b. Going concern assumption
   c. Periodicity assumption
   d. Monetary unit assumption

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

124. Which basic assumption may **not** be followed when a firm in bankruptcy reports financial results?
   a. Economic entity assumption
   b. Going concern assumption
   c. Periodicity assumption
   d. Monetary unit assumption

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

125. Which accounting assumption or principle is being violated if a company provides financial reports only when it introduces a new product?
   a. Economic entity
   b. Periodicity
   c. Revenue recognition
   d. Full disclosure

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

126. Which of the following basic accounting assumptions is threatened by the existence of severe inflation in the economy?
   a. Monetary unit assumption
   b. Periodicity assumption
   c. Going concern assumption
   d. Economic entity assumption

Ans: A, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

127. During the lifetime of an entity, accountants produce financial statements at artificial points in time in accordance with the concept of

	Relevance	Periodicity
a.	No	No
b.	Yes	No
c.	No	Yes
d.	Yes	Yes

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

128. Under current GAAP, inflation is ignored in accounting due to the
   a. economic entity assumption.
   b. going concern assumption.
   c. monetary unit assumption.
   d. periodicity assumption.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

129. The economic entity assumption
   a. is inapplicable to unincorporated businesses.
   b. recognizes the legal aspects of business organizations.
   c. requires periodic income measurement.
   d. applies to all forms of business organizations.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

130. During the lifetime of an entity, accountants produce financial statements at arbitrary points in time according to which basic accounting concept?
   a. Cost constraint
   b. Periodicity assumption
   c. Conservatism
   d. Expense recognition principle

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

131. What accounting concept justifies the usage of depreciation and amortization policies?
   a. Going concern assumption
   b. Fair value principle
   c. Full disclosure principle
   d. Monetary unit assumption

Ans: A, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

132. The assumption that a company will **not** be sold or liquidated in the near future is known as the
   a. economic entity assumption.
   b. monetary unit assumption.
   c. periodicity assumption.
   d. None of these answer choices is correct.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

133. Which of the following is an implication of the going concern assumption?
   a. The historical cost principle is credible.
   b. Depreciation and amortization policies are justifiable and appropriate.
   c. The current and noncurrent classification of assets and liabilities is justifiable and significant.
   d. All of these.

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

134. Proponents of historical cost ordinarily maintain that in comparison with all other valuation alternatives for general purpose financial reporting, statements prepared using historical costs are more
   a. verifiable.
   b. relevant.
   c. indicative of the entity's purchasing power.
   d. conservative.

Ans: A, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

135. Valuing assets at liquidation values rather than cost is inconsistent with the
   a. periodicity assumption.
   b. expense recognition principle.
   c. materiality constraint.
   d. historical cost principle.

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

136. Revenue is recognized in the accounting period in which the performance obligation is satisfied. This statement describes the
   a. consistency characteristic.
   b. expense recognition principle.
   c. revenue recognition principle.
   d. relevance characteristic.

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

137. Generally, revenue from sales should be recognized at a point when
   a. management decides it is appropriate to do so.
   b. the product is available for sale to the ultimate consumer.
   c. the entire amount receivable has been collected from the customer and there remains no further warranty liability.
   d. None of these answer choices is correct.

Ans: D, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

138. Revenue generally should be recognized
  a. at the end of production.
  b. at the time of cash collection.
  c. when realized.
  d. when the performance obligation is satisfied.

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

139. The measurement principle includes the
  a. fair value principle only.
  b. historical cost principle only.
  c. revenue recognition principle and expense recognition principle.
  d. historical cost principle and the fair value principle.

Ans: D, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

140. Which of the following is commonly referred to as the matching principle?
  a. Revenue recognition principle
  b. Measurement principle
  c. Expense recognition principle
  d. Full disclosure principle

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

141. Product costs include each of the following **except**
  a. factory overhead.
  b. officer's salaries.
  c. material.
  d. labor.

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

142. Recognizing expenses **not** when a company pays wages, but when the work contributes to revenue is in accordance with the
  a. consistency characteristic.
  b. expense recognition principle.
  c. materiality characteristics.
  d. revenue recognition principle.

Ans: B, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

143. The accounting principle of expense recognition is best demonstrated by
  a. not recognizing any expense unless a performance obligation is satisfied.
  b. matching efforts (expenses) with accomplishments (revenues).
  c. recognizing prepaid rent received as revenue.
  d. expensing research and development expenditures in the period when incurred.

Ans: B, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

144. Which of the following serves as the justification for the periodic recording of depreciation expense?
   a. association of efforts (expense) with accomplishments (revenue)
   b. systematic and rational allocation of cost over the periods benefited
   c. immediate recognition of an expense
   d. minimization of income tax liability

Ans: B, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

145. Application of the full disclosure principle
   a. is theoretically desirable but not practical because the costs of complete disclosure exceed the benefits.
   b. is violated when important financial information is buried in the notes to the financial statements.
   c. is demonstrated by the use of supplementary information explaining the effects of financing arrangements.
   d. requires that the financial statements be consistent and comparable.

Ans: C, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

146. Which of the following is an argument **against** using historical cost measurement in accounting?
   a. Fair values are more relevant.
   b. Historical costs are based on an exchange transaction.
   c. Historical costs are reliable.
   d. Fair values are subjective.

Ans: A, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

147. When is revenue generally recognized?
   a. When cash is received
   b. When the warranty expires
   c. When production is completed
   d. When the company satisfies the performance obligation

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

148. Which of the following is a component of the revenue recognition principle?
   a. Cash is received and the amount is material.
   b. Recognition occurs when the performance obligation is satisfied.
   c. Production is complete and there is an active market for the product.
   d. Cash is realized or realizable and production is complete.

Ans: B, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

149. Which of the following is **not** a required component of financial statements prepared in accordance with generally accepted accounting principles?
   a. President's letter to shareholders
   b. Balance sheet
   c. Income statement
   d. Notes to financial statements

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

150. What is the general approach when product costs are recognized as expenses?
   a. Expense in the period when paid
   b. Expense in the period when incurred
   c. Expense in the period when the vendor invoice is received
   d. Expense in the period when the related revenue is recognized

Ans: D, LO: 3 Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

151. **Not** adjusting the amounts reported in the financial statements for inflation is an example of which basic assumption or principle of accounting?
   a. Economic entity
   b. Going concern
   c. Monetary unit
   d. Full disclosure

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

152. Recognizing amortization of an intangible asset illustrates which principle of accounting?
   a. Expense recognition
   b. Full disclosure
   c. Revenue recognition
   d. Historical cost

Ans: A, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

153. When should an expenditure be recorded as an asset rather than an expense?
   a. Never
   b. Always
   c. If the amount is material
   d. When future benefits exist

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

154. Which accounting assumption or principle is being violated if a company reports its corporate headquarters building at its fair value on the balance sheet?
   a. Going concern
   b. Monetary unit
   c. Historical cost
   d. Full disclosure

Ans: C, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

155. Which accounting assumption or principle is being violated if a company is a party to major litigation that it may lose and decides not to include the information in the financial statements because it may negatively impact the company's stock price?
   a. Full disclosure
   b. Going concern
   c. Historical cost
   d. Expense recognition

Ans: A, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

156. Which assumption or principle requires that all information significant enough to affect decisions of reasonably informed users should be reported in the financial statements?
   a. Matching
   b. Going concern
   c. Historical cost
   d. Full disclosure

Ans: D, LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

157. A company has a factory building that originally cost the company $250,000. The current fair value of the factory building is $3 million. The president would like to report the difference as a gain. The write-up would represent a violation of which accounting assumption or principle?
   a. Revenue recognition
   b. Going concern
   c. Historical cost
   d. Monetary unit

Ans: C, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

158. Which of the following is a constraint in disclosing financial information?
   a. Cost
   b. Full disclosure
   c. Relevance
   d. Consistency

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

159. All of the following represent costs of providing financial information **except**
   a. processing/preparing.
   b. disseminating.
   c. accessing capital.
   d. auditing.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

160. Which of the following is a benefit of providing financial information?
    a. Potential litigation
    b. Auditing
    c. Disclosure to competition
    d. Improved allocation of resources

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

161. Which of the following statements concerning the cost-benefit relationship is **not** true?
    a. Business reporting should exclude information outside of management's expertise.
    b. Management should not be required to report information that would significantly harm the company's competitive position.
    c. Management should not be required to provide forecasted financial information.
    d. If needed by financial statement users, management should gather information not included in the financial statements that would not otherwise be gathered for internal use.

Ans: D, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

162. Which of the following relates to both relevance and faithful representation?
    a. Cost constraint
    b. Predictive value
    c. Verifiability
    d. Neutrality

Ans: A LO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

163. Which of the following is considered a pervasive constraint by *Statement of Financial Accounting Concepts No. 8*?
    a. Comparability
    b. Timeliness
    c. Verifiability
    d. Cost

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

164. The cost constraint is also referred to as the
    a. cost-benefit relationship.
    b. materiality quality.
    c. monetary unit assumption.
    d. measurement principle.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

165. The second level of the conceptual framework includes each of the following **except**
    a. elements.
    b. principles.
    c. enhancing qualities.
    d. fundamental qualities.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

166. Trade-offs between the characteristics that make information useful may be necessary or beneficial. Issuance of interim financial statements is an example of a trade-off between
   a. relevance and faithful representation.
   b. faithful representation and periodicity.
   c. timeliness and materiality.
   d. understandability and timeliness.

Ans: A, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

167. Allowing firms to estimate rather than physically count inventory at interim (quarterly) periods is an example of a trade-off between
   a. verifiability and faithful representation.
   b. faithful representation and comparability.
   c. timeliness and verifiability.
   d. neutrality and consistency.

Ans: C, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

168. The third level of the conceptual framework does **not** include
   a. assumptions.
   b. constraint.
   c. elements.
   d. principles.

Ans: C, LO: 3, Bloom: C, Difficulty: Hard, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

169. Financial accounting standard-setting in the United States
   a. can be described as a social process that reflects the political actions of various interested user groups as well as a product of research and logic.
   b. is based solely on research and empirical findings.
   c. is a legalistic process based on rules promulgated by governmental agencies.
   d. is democratic in the sense that a majority of accountants must agree with a standard before it becomes enforceable.

Ans: A, LO: 4, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

170. Which of the following is a source of pressure that may influence the accounting standard-setting process?
   a. Congress
   b. Lobbyists
   c. CPA firms
   d. All of these answers are correct.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

171. What is a possible danger if politics plays too big a role in accounting standard-setting?
   a. Accounting standards may not be truly generally accepted.
   b. Individuals may influence the standards.
   c. User groups become active.
   d. The FASB delegates its authority to elected officials.

Ans: A, LO: 4, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

172. What is the "expectations gap"?
   a. The difference between what the public thinks the accountant should not do and what the accountant knows they should do.
   b. The difference between what the public thinks the accountant should do and what Congress says the accountant should do.
   c. The difference between what the public thinks the accountant should do and what the accountants think they can do.
   d. The difference between what the accountant should do and what the Courts say the accountant should be doing.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

173. Which of the following is an ethical concern of accountants?
   a. Pressure to maximize the bottom line
   b. Conservative accounting practices
   c. Industry practices
   d. Managerial accounting

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge & Ethics, AICPA BC: None, AICPA AC: Reporting, AICPA PC: Prof. Demeanor, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

174. Financial statements traditionally focus on financial information related to
   a. nonfinancial measurements.
   b. forward-looking data.
   c. hard assets (inventory and plant assets).
   d. soft assets.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

175. Which of the following is **not** a major challenge facing the accounting profession?
   a. Nonfinancial measurements
   b. Timeliness
   c. Accounting for hard assets
   d. Forward-looking information

Ans: C, LO: 4, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

MULTIPLE CHOICE—CPA Adapted

176. According to the FASB's conceptual framework, predictive value is an ingredient of

	Relevance	Faithful Representation
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

Ans: A, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

177. According to the FASB's conceptual framework, which of the following relates to both relevance and faithful representation?

	Comparability	Neutrality
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

Ans: B, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

178. According to the FASB's conceptual framework, which of the following enhances information that is relevant and faithfully represented?
    a. Neutrality
    b. Comparability
    c. Confirmatory value
    d. Materiality

Ans: B, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

179. According to the FASB's conceptual framework, the calculation of comprehensive income includes which of the following?

	Income from Continuing Operations	Distributions to Owners
a.	No	No
b.	Yes	No
c.	Yes	Yes
d.	No	Yes

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

180. According to the FASB's conceptual framework, what does the concept of faithful representation include?
    a. Verifiability
    b. Predictive value
    c. Materiality
    d. Neutrality

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

181. According to the FASB's conceptual framework, which of the following is an essential characteristic of an asset?
   a. The claims to an asset's benefits are legally enforceable.
   b. An asset is tangible.
   c. An asset is obtained at a cost.
   d. An asset provides future benefits.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

182. Which of the following is an application of rational and systematic allocation?
   a. Amortization of intangible assets
   b. Sales commissions
   c. Research and development costs
   d. Officers' salaries

Ans: A, LO: 2, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

BRIEF EXERCISES

BE. 1-183

Accounting information provides useful information about business transactions and events. Those who provide and use financial reports must often select and evaluate accounting alternatives. The FASB statement on qualitative characteristics of accounting information examines the characteristics of accounting information that make it useful for decision-making. It also points out that various limitations inherent in the measurement and reporting process may necessitate trade-offs or sacrifices among the characteristics of useful information.

Instructions

(a) Describe briefly the following characteristics of useful accounting information.

(1) Relevance
(2) Faithful representation
(3) Understandability
(4) Comparability
(5) Consistency

(b) For each of the following pairs of information characteristics, give an example of a situation in which one of the characteristics may be sacrificed in return for a gain in the other.

(1) Relevance and faithful representation.
(2) Relevance and consistency.
(3) Comparability and consistency.
(4) Relevance and understandability.

(c) What criterion should be used to evaluate trade-offs between information characteristics?

Ans: NA, LO: 2, 3, Bloom: C, Difficulty: Hard, Min: 15-20, AACSB: Knowledge, AICPA BC: None, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-183

(a) (1) Relevance is one of the two fundamental qualities of useful accounting information. Relevant information is capable of making a difference in a decision. Relevant information helps users to make predictions about the outcomes of past, present, and future events, or to confirm or correct prior expectations. Materiality is a company-specific aspect of relevance.

(2) Faithful representation is one of the two fundamental qualities of useful accounting information. Reliable information can be depended upon to represent the conditions and events that it is intended to represent. Representational faithfulness is correspondence or agreement between accounting information and the economic phenomena it is intended to represent stemming from completeness, neutrality, and free from error.

(3) Understandability is an enhancing quality of information. Information is understandable when it permits reasonably informed users to perceive its significance. Understandability is a link between users, who vary widely in their capacity to comprehend or utilize the information, and the fundamental qualities of information.

(4) Comparability means that information about companies has been prepared and presented in a similar manner. Comparability enhances comparisons between information about two different companies at a particular point in time.

(5) Consistency means that a company applies the same accounting treatment to similar events from one period to another. Consistency enhances comparisons between information about the same company at two different points in time.

(b) (**Note to instructor**: There is a multitude of answers possible here. The suggestions below are intended to serve as examples).

(1) Forecasts of future operating results and projections of future cash flows may be highly relevant to some decision-makers. However, they would not be as free from error as historical cost information about past transactions.

(2) Proposed new accounting methods may be more relevant to many decision-makers than existing methods. However, if adopted, they would impair consistency and make trend comparisons of an enterprise's results over time difficult or impossible.

(3) There presently exists much diversity among acceptable accounting methods and procedures. To facilitate comparability between enterprises, the use of only one accepted accounting method for a particular type of transaction could be required. However, consistency would be impaired for those firms changing to the new required methods.

(4) Occasionally, relevant information is exceedingly complex. Judgment is required in determining the optimum trade-off between relevance and understandability. Information about the impact of general and specific price changes may be highly relevant but not understandable by all users.

(c) Although trade-offs result in the sacrifice of some desirable quality of information, the overall result should be information that is more useful for decision making.

BE. 1-184

State the qualitative characteristic, accounting assumption, principle, or constraint that is most applicable in the following cases.

1. All payments less than $25 are expensed as incurred.
2. The company employs the same inventory valuation method from period to period.
3. A patent is capitalized and amortized over the periods benefited.
4. Assuming that dollars today will buy as much as ten years ago.
5. Rent paid in advance is recorded as prepaid rent.
6. Financial statements are prepared each year.
7. All significant post-balance sheet events are reported.
8. Personal transactions of the proprietor are distinguished from business transactions.

Ans: NA, LO: 2, 3 Bloom: C, Difficulty: Medium, Min: 8-10, AACSB: Knowledge, AICPA BC: None., AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-184

1. Materiality
2. Consistency
3. Expense recognition principle or going concern assumption
4. Monetary unit assumption
5. Expense recognition principle or going concern assumption
6. Periodicity assumption
7. Full disclosure principle
8. Economic entity assumption

BE. 1-185

Presented below are accounting procedures and practices at Pulicottle Corp. For each of these items, list the assumption, principle, quality, or modifying convention that is violated.

1. Because the company's income is low this year, a switch from accelerated depreciation to straight-line depreciation is made this year.
2. The president of Pulicottle Corp. believes it is foolish to report financial information on a yearly basis. Instead, the president believes that financial information should be disclosed only when significant new information is available related to the company's operations.
3. Pulicottle Corp. decides to establish a large loss and related liability this year because of the possibility that it may lose a pending patent infringement lawsuit. The possibility of loss is considered remote by its attorneys.
4. An officer of Pulicottle Corp. purchased a new home computer for personal use with company money, charging miscellaneous expense.
5. A machine that cost $40,000 is reported at its current market value of $45,000.

Ans: NA, LO: 2, 3 Bloom: C, Difficulty: Hard, Min: 10, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-185

1. Consistency
2. Periodicity
3. Expense recognition
4. Economic entity
5. Historical cost

EXERCISES

Ex. 1-186

Presented below are two independent, unrelated statements regarding the formulation of generally accepted accounting principles. Each statement contains some incorrect or debatable statement(s).

Statement I

The users of financial accounting statements have coinciding and conflicting needs for statements of various types. To meet these needs, and to satisfy the financial reporting responsibility of management, accountants prepare different sets of financial statements for different users.

Statement II

The FASB should be responsive to the needs and viewpoints of the entire economic community, not just the public accounting profession. The FASB therefore will succeed because it will deal effectively with all interested groups.

Instructions

Evaluate each of the independent statements and identify the areas of fallacious reasoning in each. Explain why the reasoning is incorrect. Complete your discussion of each statement before proceeding to the next statement.

Ans: NA, LO: 1, 2, Bloom: E, Difficulty: Hard, Min: 10, AACSB: Reflective Thinking, AICPA BC: None., AICPA AC: Reporting, AICPA PC: None IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

Solution 1-186

Statement I

It is true that users of financial accounting statements have coinciding and conflicting needs for statements of various types. However, to meet these needs, accountants generally prepare a single set of general-purpose financial statements, rather than different types of financial statements. It may be argued that accountants often do prepare special statements for particular purposes, but in general, the accounting profession has relied on general-purpose financial statements prepared in conformance with generally accepted accounting principles.

Statement II

It is true that the FASB should be responsive to the needs of the entire economic community, not just the public accounting profession. However, it is not clear whether the FASB will succeed. The FASB will have the best chance of survival if it deals with problems promptly, sets proper priorities, takes whatever action it thinks is right and in the public interest, and handles pressures responsibly without overreacting to them.

Ex. 1-187

What is the objective of financial reporting? How do general-purpose financial statements help meet this objective?

Ans: NA, LO: 2, Bloom: C, Difficulty: Medium, Min: 5, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-187

The objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in decisions about providing resources to the entity.

General-purpose financial statements provide financial reporting information to a wide variety of users. They help shareholders, creditors, managers, and regulators to better understand a company's financial position and related performance.

Ex. 1-188

In establishing financial accounting standards, two basic premises of the FASB are (1) The FASB should be responsive to the needs and viewpoints of the entire economic community, not just the accounting profession. (2) It should operate in full view of the public through a "due process" system that gives interested persons ample opportunity to make their views known. To ensure the achievement of these goals, what steps does the FASB follow in the development of a typical FASB standard?

Ans: NA, LO: 2, Bloom: K, Difficulty: Medium, Min: 5-7, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

Solution 1-188

The steps in the evolution of a FASB Accounting Standards Updates are:

a. Topics are identified and placed on the Board's agenda.
b. Research and analysis are conducted and preliminary views of pros and cons are issued.
c. A public hearing on the proposed standard is held.
d. The Board evaluates the research and public response and issues an exposure draft.
e. The Board evaluates the responses and changes the exposure draft, if necessary. The final standard is then issued.

Ex. 1-189

Listed below are several information characteristics and accounting principles and assumptions. Match the letter of each with the appropriate phrase that states its application. (Items *a* through *k* may be used more than once or not at all.)

a. Economic entity assumption
b. Going concern assumption
c. Monetary unit assumption
d. Periodicity assumption
e. Historical cost principle
f. Revenue recognition principle
g. Expense recognition principle
h. Full disclosure principle
i. Relevance characteristic
j. Faithful representation characteristic
k. Consistency characteristic

Ex. 1-189 (Cont.)

____ 1. Stable-dollar assumption (do not use historical cost principle).

____ 2. The performance obligation is satisfied.

____ 3. Numbers and descriptions match what actually existed or happened.

____ 4. Yearly financial reports.

____ 5. Accruals and deferrals in the adjusting process. (Do not use going concern.)

____ 6. Useful standard measuring unit for business transactions.

____ 7. Notes as part of the information necessary for a fair presentation.

____ 8. Affairs of the business distinguished from those of its owners.

____ 9. Company assumed to have a long life.

____ 10. Valuing assets at amounts originally paid for them.

____ 11. Application of the same accounting principles as in the preceding year.

____ 12. Summarizing significant accounting policies.

____ 13. Presentation of timely information with predictive and confirmatory value.

Ans: NA, LO: 2, 3, Bloom: K, Difficulty: Easy, Min: 13, AACSB: Knowledge, AICPA BC: None, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-189

1. c	4. d	7. h	10. e	13. i
2. f	5. g or f	8. a	11. k	
3. j	6. c	9. b	12. h	

Ex. 1-190

Fill in the blanks below with the accounting principle, assumption, or related item that *best* completes the sentence.

1. ________________________ and _______________________ are the two fundamental qualities that make accounting information useful for decision making.

2. Information that helps users confirm or correct prior expectations has _________________ ___________________.

3. ________________________ enables users to identify the real similarities and differences in economic events between companies.

4. _________________ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Ex. 1-190 (Cont.)

5. Information is ______________________ if omitting it or misstating it could influence decisions that users make on the basis of the reported financial information.

6. The _______________________ characteristic requires that the same accounting method be used from one accounting period to the next unless it becomes evident that an alternative method will bring about a better description of a firm's financial situation.

7. ___________________ means that a company cannot select information to favor one set of interested parties over another.

8. Providing information that is of sufficient importance to influence the judgement and decisions of an informed user is referred to as ______________________.

9. Corporations must prepare accounting reports at least yearly due to the ______________ assumption.

10. ________________ occurs when the performance obligation is satisfied.

Ans: NA, LO: 2, 3, Bloom: K, Difficulty: Easy, Min: 10, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

Solution 1-190

1. Relevance; faithful representation
2. Confirmatory value
3. Comparability
4. Fair value
5. Material
6. Consistency
7. Neutrality
8. Dull disclosure
9. Periodicity
10. Revenue recognition

Ex. 1-191

Briefly explain the four basic assumptions that underlie financial accounting.

Ans: NA, LO: 3, Bloom: K, Difficulty: Easy, Min: 8, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS: None

Solution 1-191

1. The economic entity assumption states that economic activity can be identified with a particular unit of accountability.
2. The going concern assumption assumes that a company will have a long life.
3. The monetary unit assumption means that money is the common denominator of economic activity and provides an appropriate basis for accounting measurement and analysis. In addition, the monetary unit remains reasonably stable.
4. The periodicity assumption implies that a company can divide its economic activities into artificial time periods.

Ex. 1-192

Historical cost as a basis of accounting for assets has been severely criticized. What defense can you build for historical cost as the basis for financial accounting?

Ans: NA, LO: 3, Bloom: E, Difficulty: Medium, Min: 5-10, AACSB: Reflective Thinking, AICPA BC: None., AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-192

Historical cost is definite and verifiable and not a matter for conjecture or opinion. Once established, cost is fixed as long as the asset remains the property of the party that incurred the cost. Cost is based on fact; that is, it is the result of an arm's length transaction. Cost is also measurable or determinable. Over the years, accountants have found cost to be the most practical basis for record-keeping. Financial statements prepared on a cost basis provide business enterprise information having a common, accepted basis from which each reader can make inferences, comparisons, and analyses.

Ex. 1-193

A concept is a group of related ideas. Matching could be considered a concept because it includes ideas related to expense recognition. Briefly explain the ideas in expense recognition.

Ans: NA, LO: 3, Bloom: C, Difficulty: Medium, Min: 10, AACSB: Knowledge, AICPA BC: None, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS: None

Solution 1-193

The ideas in expense recognition include "expense" and "matching":

1. Expenses are outflows of net assets during a period from delivering or producing goods or services or other activities that are the major operations of the entity.
2. Expenses are recognized when the goods or services (efforts) make their contribution to revenue (accomplishment).

The expense recognition principle is that expenses are matched with revenues. Expenses are matched three ways:

1. When there is an association with revenue, expenses are matched with revenues in the period the revenues are recognized.
2. When no association with revenue is evident, expenses are allocated on some systematic and rational basis.
3. When no association with revenue is evident and no future benefits are expected, expenses are recognized immediately.

IFRS QUESTIONS

True/False:

1. The standard-setting structure used by the International Accounting Standards Board is very similar to that used by the Financial Accounting Standards Board.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

2. The rules-based standards of IFRS are more detailed than the simpler, principles-based standards of GAAP.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

3. The IASB relies primarily on IOSCO for regulation and enforcement of its standards.

Ans: T, LO: 5, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

4. The IASB and the FASB are working together to find common grounds for convergence.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

5. Under IFRS, it is mandatory to report property, plant, and equipment at historical cost.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

6. The existing conceptual frameworks underlying GAAP and IFRS are very similar.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

7. The monetary unit assumption is a part of GAAP, but **not** IFRS.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

8. A company incorporated in Japan uses the dollar as its unit of measurement.

Ans: F, LO: 5, Bloom: K, Difficulty: Medium, Min: 1, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Measurement Analysis and Interpretation, AICPA PC: None, IMA: Reporting & Control: Financial Statement Preparation, IFRS

Multiple Choice:

9. Which of these statements regarding the IFRS and GAAP is correct?
   a. GAAP is considered to be "principles-based".
   b. GAAP is considered to be less detailed than IFRS.
   c. IFRS is considered to be "principles-based" and less detailed than GAAP
   d. Both GAAP and IFRS are considered to be "rules-based", but GAAP tends to be more complex.

Ans: C, LO: 5, Bloom: K, Difficulty: Medium, Min: 2, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

10. The IASB's standard-setting structure includes all of the following **except**
    a. the Interpretations Committee
    b. the Advisory Council
    c. the Standards Comparison Committee
    d. a general body that involves the public interest

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

11. Which of the following organizations have committed to developing high-quality, compatible accounting standards that could be used for domestic and cross-border financial reporting
    a. The Financial Accounting Standards Board (FASB) and the International Organization of Securities Commission (IOSCO)
    b. The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB)
    c. The International Accounting Standards Board (IASB) and International Organization of Securities Commission (IOSCO)
    d. The International Accounting Standards Board (IASB) and the Standards Advisory Council (SAC)

Ans: B, LO: 5, Bloom: K, Difficulty: Hard, Min: 2, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS

12. Most users of financial statements agree that one set of international accounting standards is needed because
    a. multinational corporations view the world as their market.
    b. business combinations often occur between U.S. companies and those using other standards.
    c. financial markets are connected and have international significance.
    d. all of these answers are correct.

Ans: D, LO: 5, Bloom: K, Difficulty: Hard, Min: 2, AACSB: Knowledge & Diversity, AICPA BC: Global and Industry Perspectives, AICPA AC: Reporting, AICPA PC: None, IMA: Reporting & Control: Financial Statement Analysis, IFRS